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THE PANAMA CANAL *VERSUS* AMERICAN SHIPPING

BY A. G. MCLELLAN

IN 1915, when the Panama Canal is thrown open to the water-borne commerce of the world, the present long-distance trade routes to the Pacific will perforce be abandoned in favor of the new short-distance routes which the opening of the Canal will bring in its wake.

Recognizing the fact that this desired state of affairs will be brought about wholly and solely through America's great expenditure in money, skill and labor, the question then naturally arises: Will America within a reasonable time, if at all, receive a return commensurate to its colossal undertaking and investment? The question again may be put in another way thus: Will the opening of the Canal give to American shipping the necessary stimulus which it stands so sadly in need of to-day?

Without in any way attempting to underestimate the value of the Canal to America as a nation, yet, when one contrasts American shipping ethics and methods with those of foreign nations, it is safe to assume that had the Panama Canal been taken in hand by a nation other than America little thought would be required in the answering of the foregoing questions.

Leaving aside the importance of the waterway in its relation to the political status of America, let us turn our thoughts to a particular industry — shipping — which will either stand or fall through the construction of it if the present-day antiquated shipping laws of America are not substituted by wise laws more suited to modern requirements. If at the time of the opening of the Canal American foreign-going shipping stands as it now is, we shall see the tonnage of other nations reaping the benefit of new short-distance trades at the expense of American enterprise.

European shippers and ship-owners with their accustomed

foresight and energy in all things pertaining to merchant-ship tonnage will make a bold bid to establish new lucrative trades without being forced in any way to withdraw any of their tonnage from the present well-established trades.

Shipping, for purposes of this article, may be divided into three classes: foreign-going, coastal and naval. Dealing with foreign-going vessels first, we seem within measurable distance of the time when the word "extinction" will have to substitute "decline" when speaking of the American merchant marine. With shipping laws diametrically opposed to the existence or growth of its merchant tonnage, America, instead of giving its shipping industry protection, on the contrary seems bent on sweeping it to destruction.

While the present suicidal policy is being persistently followed out to the letter, foreign tonnage doing business with America tends steadily to increase, and this increase with the opening of the Panama Canal will only become greater, and that at the expense of American tonnage.

A study of the Suez Canal and what its opening meant to the small ship-owners of Europe ought to interest those holding office in America. What it did for European shipping the Panama Canal can do for American shipping if the problem is faced squarely and without loss of time.

The opening of the Suez Canal made it possible for small steamers ranging between three thousand and five thousand tons gross to engage in Eastern trades which hitherto were closed to them because the long distances required to be travelled swallowed up the profits on freights. This reduction in mileage will be repeated when the Panama Canal is declared open to navigation. Small steamers of the tonnage mentioned will pioneer a trade which at present is quite beyond their earning capacities, but which will be well within the margin of dividends when entrance to the Pacific is gained by passing through the Panama Canal instead of by the routes now followed—*via* Cape Horn or Straits of Magellan.

Roughly speaking, the distance by water from Europe to the principal ports of California and Oregon is about 14,000 miles and to the principal ports of Chile and Peru about 10,000 miles. Freights, at their present figure, make it impossible for small steamers of the tramp class to engage in trades which, owing to the long distances required to be travelled, offer no inducement to the owner of small steamers.

But when the present 14,000-mile stretch is reduced to about 7,000 miles and the 10,000-mile stretch to 4,000 through gaining admittance into the Pacific *via* Panama instead of *via* Cape Horn, European ship-owners see at a glance that this tremendous reduction in mileage represents the difference between profit and loss, and they will not hesitate to send their small low-powered vessels into the Pacific to seek their fortunes.

Allowing that European tonnage instead of increasing remains stationary, what then will happen? The congested state of shipping now engaged in all Eastern trades will be greatly relieved by the temporary withdrawal of many vessels suited to the new trades which the Panama Canal will create. This cuts two ways. While the congestion out East is relieved by the withdrawal of tonnage, freights consequently must rise; and while this is taking place vessels which before only helped to spell confusion will then establish new trades which are bound to guarantee a profit. On the other hand, if at the time of the opening of the Panama Canal Eastern freights should show a tendency to rise or even remain steady, then no vessels of any consequence will be withdrawn from Eastern waters. Rather new and cheaply built small vessels of low power will crowd in and throttle any half-hearted efforts which American ship-owners, if the past is any criterion, are sure to make in their attempts to gain a footing in the Pacific. The time is now, and not after the opening of the Canal, when America should lay down the nucleus of a merchant marine sufficient in size to cope successfully with foreign merchant marines.

An expenditure of \$500,000,000 on construction work, not to speak of labor, and so forth, has a right to demand some kind of return on the outlay. A nation which controls the greatest water highway in the world, in addition to owning many of the finest seaports, harbors and rivers, has a right to a leading position in the maritime world. America is such a nation, but up to the present has not claimed her rights. In the shipping world, on account of her expending all her energies in the development of her internal resources at the expense of her external, she holds no position worthy of consideration or recognition. This somewhat sad state of affairs is countenanced by the Government in its insistence on holding on to its present antiquated maritime laws.

Without arguing for or against the following suggestions put forward in favor of the protection of the American merchant marine, either one or all of them ought to be adopted until such times as American merchant tonnage is of sufficient size to stand on its own feet without Government aid and is able to compete on equal footing with foreign shipping. It matters not the form Government aid takes, whether it be Government-owned lines, Government subsidy, preferential Canal dues to American vessels, reduction of the manning force at present required, or the repeal of the law which makes it illegal for foreign-built ships, but American owned, to fly the Stars and Stripes. If the last three suggestions only were carried out immediately they would probably go a long way toward helping to build up quite a respectable merchant marine by the time navigation through the Panama Canal is a reality.

The manning question deserves a little more than a passing reference. As the manning law now stands American ships are required to carry as members of the crew seven men over and above the number demanded by the British authorities in British ships.

This number—seven—is quoted for vessels of the smallest ocean-going tonnage and increases pro rata with tonnage. Considering the high wages paid to seamen in American ships in comparison to British or German seamen's wages, this in itself is a sufficient handicap, not to speak of the number of seamen required to be carried in American ships over and above the number enforced in the manning of British vessels. Now if the British authorities, who are old experienced hands at the shipping game, can allow their vessels to put to sea with at least seven hands less than American ships carry, then why cannot American ship-owners be allowed to reduce their crews to British standards?

The manning question is, of course, only a small matter, but when it concerns a ship-owner running a number of small vessels only, it may mean the difference between profit and loss to him, especially if there is a depression in freights. The remedy to prevent the decline or the total extinction of the American merchant marine is entirely in American hands. The Panama Canal, if the subject is thoroughly gone into, also offers a solution to the problem of its steady growth and to its sharing with foreign marines a fair portion of the world's carrying trade.

Turning now to American coastal shipping and its relation to the Panama Canal, one cannot be as optimistic in treating with this branch of the shipping industry as in the treatment of deep-water tonnage.

The curse of America—the railroad trusts—will endeavor to frustrate all attempts made by small ship-owners to engage in long-distance coastal trading—say, between San Francisco, San Diego, Portland and Seattle and ports on the Atlantic seaboard. On an average, water-borne commerce in comparison to distance travelled costs only one-sixth as much as carriage by rail, and long-distance freight can be handled as expeditiously by sea as by rail. This being so and bearing in mind that all big railroad companies run ships of their own, it goes without saying that vessels owned and run by any of these corporations could be operated, for the time being, at a loss in order to keep ships not owned by them out of the coastal trade. Not a very large fleet of railroad steamers would be required to so throttle up the coastal trade that freight perforce would have to be either carried by them or be carried across the American continent by rail, this depending upon the state of trade or the policy of the controlling railroad magnates. An indication of the trend of affairs is furnished by a study of the Panama Railroad ships owned and operated ostensibly by the United States Government. These ships leave New York on their way south to Colon full of cargo, but they find on the Isthmus only little freight for their return journey and as often as not are forced to return to their port of departure in ballast.

Railroad monopoly dictates as to the quality and quantity of freight which will find its way from the Western seaboard *via* the Isthmus of Panama to Eastern markets. Western farmers, knowing how much cheaper it is for them to ship their harvests by water to Panama, then by rail to Colon, again by water to New York, are yet denied this right by the railroad magnates, who see that if this course were allowed to be followed a depreciation in railroad stock and a diminution of dividends would result.

Last year the orange and lemon growers of California handed over to the railroads the colossal sum of \$14,000,000 for the carrying of a single crop of oranges and lemons to the Eastern markets. This figured out at the rate of about \$25 per ton. Contrast this with the Pacific grain crop, which

can be carried to Europe *via* Cape Horn at a maximum rate of \$8 per ton, and with oranges which can be carried in refrigerated ships in a proposed line from Los Angeles to New York at less than one-third of the present railroad tariff. By an all-water route even around Cape Horn, California growers could save on a single orange and lemon crop a sum approximating \$10,000,000, a sum sufficient in itself to build and operate a line of first-class freight-steamers. If on orange and lemon crops alone railroads can snatch a \$10,000,000 profit a year, it is hardly likely even if railroad-owned vessels carried other produce for nothing that small ship-owners would be allowed to claim a fair share of the coastal-carrying trade. Against such tremendous odds small ship-owners would stand no chance. They could not run their vessels profitably on the cost of freight which the railroad-owned ships could and would determine. Thus we find that the producer, consumer, shipper and ship-owner are between the devil and the deep sea. All are robbed of the legitimate rewards of honest trade; and the people, through the present high cost of living, pay their toll to the railroad magnates at the rate of \$10,000,000 a year on oranges and lemons alone.

It seems, when dealing with coastal shipping, that we confront a problem as difficult to solve as that which the overwhelming superiority of foreign deep-water tonnage offers to American foreign-going shipping.

There are two ways out of the difficulty: (1) Let the United States Government own and run a fleet of steamers of sufficient size and speed to guarantee that Western crops shall reach their Eastern markets within a reasonable time and so fix rates that undercutting by railroad vessels would be impossible. (2) Failing the first proposition, then if a syndicate of Western farmers and shippers ran their own steamers at fixed rates and also gave the preference to their own vessels opposition by railroad-owned steamers would soon break down when it was found that syndicate vessels were quite beyond the control of the railroads and carried full cargoes both ways. If one or both of these suggestions were carried into effect, then Western harvests would reach Eastern markets by an all-water route, which, as already stated, allowing for distance covered, costs about six times less than carriage by rail. Once this trade became firmly established and all railroad monopoly was broken down, the

Panama Canal would then have not been built in vain in so much as its relations to the coastal shipping of America are concerned.

In estimating the value of the Panama Canal in its relations to the American navy, or to the American nation as a whole, we have a factor which at once clears away all doubts as to the possibility of a successful invasion of American shores. If the present proposed scheme of fortifying the Canal is carried into effect, America then, by the intended fortifications, makes her position both on the Atlantic and Pacific impregnable.

Opinion on the question of fortifying the waterway is divided. It is quite true that under the Hay-Bunau-Varilla Treaty the United States has the right to fortify the Canal, but this treaty is of little importance, as it is in conflict with the Hay-Pauncefote Treaty which declined to assimilate the Panama Canal to the Suez Canal in this respect, on the ground that the United States has not in the Isthmus of Panama the same sovereign rights as the Khedive of Egypt possesses over his waterway.

On the other hand, the Presidential legal advisers say that under the second Hay-Lansdowne Treaty there is not a shadow of doubt but that the United States may not only construct the Canal, but control and fortify it; and that the terms of the Treaty are not being unduly stretched by the proposition to establish forts, with guns at either end, capable of sweeping twenty miles of the Pacific and Atlantic oceans. If the proposed sum of \$2,000,000 be appropriated for immediate service in building the projected forts, then the safe passage of American fleets—Atlantic and Pacific—into either ocean is guaranteed.

Fortifications, it is true, invite war, and in these days it is only fortified seaports or waterways which stand in danger of being attacked by hostile ships; but the Treaty between Great Britain and the United States, which provides that no act of war shall ever be committed within the neutral zone, in the face of recent events, only tends to show that treaties are futile when a nation is bent upon securing new lands or is bent upon the realization of a national ideal.

A long-standing weakness of the American navy has been its inability to concentrate its whole force within a reasonable limit of time at any particular place where danger may threaten. Its two fleets, as at present, being separated by a

twelve-thousand-mile expanse of water, could not act independently against a powerful naval antagonist with a reasonable chance of securing victory against the tremendous odds which could be launched against either.

Appreciating this fact, then, should the United States Government wilfully ignore the value of fortifying the Panama Canal or refuse to guarantee the safe passage of its fleets into either ocean? Such action could only be interpreted as those tantamount to the encouragement of national suicide. Many argue that to fortify the Canal is to make it the cockpit of the earth. Well, if war must take place, what matters it if the seat be the Near East, Far East or Panama? The fortifying of the Canal will in no way alter America's relations with other Powers or cause her to abandon her present pacific policy in favor of an aggressive one.

The settlement of international disputes presents so obvious an advantage over war that we may expect in the near future to see the nations vying with each other in their appeals for the good offices of the Hague jurists. In either case, with or without fortifications, should America engage in war with a powerful naval antagonist, the main objective of its antagonist would be to keep both fleets apart. To prevent a conjunction of fleets a position would have to be taken up by the opposing vessels off Panama.

The batteries which it is proposed to mount at the entrances of the Canal could only, at the most, guarantee a cruising radius twenty miles clear for American ships. To an attacking fleet this means little or nothing at all, as it could so manœuvre that American ships, unless they employed cowardly tactics altogether opposed to American ideals and traditions, would have to come out in the open and fight at a distance well outside the range of the Panama batteries. It is not the Canal fortifications which will localize a naval engagement or turn that zone into the cockpit of the world, but the waterway itself.

The biggest question of to-day is: war or peace. Nations at present groan under burdens not of benevolence or science or education, but of armaments both naval and military. Americans can afford to spend \$500,000,000 on the construction of a highway of peace and commerce and another estimated \$14,000,000 on the fortification of it without in any way being justly accused of affronting the world with a war policy looked upon by some as reckless in its ex-

travagance and defiant in its purpose. "Defence, not Defiance," is what the Panama batteries will stand for!

Allowing that the fortifications will be partly finished by the time of the opening of the Canal, will the assured safe conduct of both American fleets into either ocean not go a long way towards solving the problem of America's naval expenditure? Does this not savor of disarmament? Of smaller craft, such as torpedo-boats and destroyers whose voyage to the Pacific *via* Cape Horn or Straits of Magellan is fraught with danger to their crews, the passage into the Pacific in comparatively smooth water, not to speak of the time saved on the journey *via* Panama, at once reduces the need of maintaining powerful flotillas of these vessels in both oceans to operate in conjunction with battleships or cruisers.

Again, the weakest spot in the American navy is the absence of first-class battleships in the Pacific Ocean. At present there are no American modern all-big-gun and heavily armored battleships—Dreadnoughts—in the Pacific, while the strongest naval Power in that ocean—Japan—has several. These vessels, which cost about \$10,000,000 each to build, in any future naval war will decide victory. The cost of building only two such vessels would more than pay for the proposed Canal fortifications. Then supposing that the entry of these ships into the Pacific could not be assured by the support of land batteries, it would mean that America must increase her Pacific naval strength to that of Japan. This is a contingency which American naval authorities do not care to face in view of the benefits which will accrue to the American navy through the construction and fortification of the Panama Canal. Nor should they, as the balance of power in the Pacific will be turned in favor of America when the Canal is opened.

For the building of the proposed batteries, it is planned to appropriate in all a sum of \$14,000,000, \$2,000,000 of which are to be expended for immediate service. So that for the whole sum mentioned — \$14,000,000 — United States naval power will increase one hundred per cent. at least without the addition of a single new keel to the navy.

To continue, even to those whose knowledge of nautical affairs is a minus quantity, it is apparent that America's present naval weakness invites attack. The fighting power of the Pacific fleet alone, if opposed to the might of Japan, would avail it nothing in the final issue of an

engagement. The Pacific slope would be open to invasion should there be nothing between an invading army and California but the American Pacific fleet. How the invaders would fare after effecting a landing is beside this question, but once the Canal permits of the joining of the two American fleets the American navy then would be the dominant power in the Pacific and the United States oversea possessions would be safe from seizure or attack.

This happy state of affairs will be brought about when the Panama Canal is a reality. The overwhelming superiority which the Canal will give to the American navy over any other navy whose ships must steam at least three thousand miles to engage it at once overthrows any invasion theories that may at present be entertained. It would be lunacy on the part of America were she to leave unfortified what all military experts unite in regarding as the inevitable scene of the next war in the Western Hemisphere. Too much emphasis cannot be laid on the fact that the Canal and not its fortifications has changed the probable scene of future hostilities from the Far East to the Middle West.

Enough has been said to show that the Panama Canal will benefit foreign ship-owners and American railroad magnates only if new laws are not framed at once to checkmate foreign competition and monopoly by the railroads. As the laws stand at present they are diametrically opposed to progress in the merchant shipping world. The people of America, looking upon the Canal as a business asset, will be robbed of a legitimate return on their enormous investment in men and money if efficient remedies are not soon forthcoming.

What they lose in a business sense will be more than made up to them in a national sense; but, after all, this is small compensation when the remedy or a combination of business and national gain is well within the power of the United States Government to grant if it would only face facts as they exist to-day and appreciate its responsibilities in a manner which would place American ships and ship-owners more on a par with European. What American naval tonnage will gain through the Panama Canal, merchant tonnage should. The value of the latter, if it were secured a fair field and no favor, would enhance with the opening of the waterway in much the same way as the former—automatically.

A. G. McLELLAN.